

## RESEARCH ARTICLE

# Key Indicators to Enhance the Survivability of SMEs' Franchise Business in EEC

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## Abstract

Based on some challenges of the classic belief in the strategic alliance approach, many business sectors utilize it to either creating a competitive advantage or minimizing the risk of business failure, especially in the franchise business. As such, this study's objective seeks to explore the 3 key indicators in enhancing Franchise Business Survivability (FBS) in the Eastern Economic Corridor (EEC): (1) direct effect of Trust; (2) mediating effect of Relationship Satisfaction (RS), and (3) moderating effect of Commitment. The 400-target SMEs are determined by proportional stratified sampling and collecting data is done by judgment and convenience methods with an on-site questionnaire collection. For data analysis, construct validity is performed by first-order confirmatory factor analysis, and hypothesis testing is performed by multiple regression analysis and Sobel test. The result reveals that Trust and RS are the key indicators in enhancing FBS. On other hand, it is also found that a strong commitment is unable to reinforce RS

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of both franchisor-franchisee in which contributes to overall franchise business performance. Hence, both franchisor-franchisee should focus on developing a higher level of Trust and RS by providing honest and consistent business operations, while they should avoid misunderstanding and unfair franchise agreements that interrelate to their commitments. Therefore, the result of this study would create an awareness of the key indicators in enhancing the survivability of franchise business and to understand the strategic alliance approach affecting the survivability of Small and Medium Enterprises (SMEs) franchise business in the EEC of Thailand.

**Keywords:** Trust, Relationship Satisfaction, Commitment, Franchise Business Survivability, Strategic Alliance

## บทความวิจัย

# ตัวบ่งชี้ในการพัฒนาความสามารถในการอยู่รอดของธุรกิจ แฟรนไชส์ของวิสาหกิจขนาดกลางและขนาดย่อมในเขตพัฒนา พิเศษภาคตะวันออก

อารีรัตน์ ลิ้มพะพันธุ์<sup>1</sup>

## บทคัดย่อ

จากความเชื่อการเป็นพันธมิตรเชิงกลยุทธ์ขององค์กรภาคธุรกิจ ไม่ว่าจะเป็นการสร้างรายได้เปรียบในการแข่งขัน หรือการลดความเสี่ยงของความเสี่ยงในการดำเนินธุรกิจ โดยเฉพาะอย่างยิ่งในธุรกิจแฟรนไชส์ การวิจัยนี้มีวัตถุประสงค์ในการศึกษา (1) อิทธิพลทางตรงของความไว้วางใจ (2) อิทธิพลคั่นกลางของความพึงพอใจในความสัมพันธ์ และ (3) อิทธิพลกำกับของการปฏิบัติตามสัญญา ที่ส่งผลต่อความสามารถในการอยู่รอดของธุรกิจแฟรนไชส์ของวิสาหกิจขนาดกลางและขนาดย่อม กลุ่มตัวอย่างจำนวน 400 บริษัท ได้มาจากการคำนวณด้วยวิธีการสุ่มตัวอย่างแบบชั้นภูมิ สำหรับการวิเคราะห์ข้อมูลใช้วิธีการวิเคราะห์การถดถอยพหุคูณ พบว่า ความไว้วางใจและความพึงพอใจในความสัมพันธ์ระหว่างเจ้าของสิทธิ์แฟรนไชส์กับผู้ซื้อสิทธิ์แฟรนไชส์ เป็นตัวบ่งชี้หลักในการพัฒนาความสามารถในการอยู่รอดของธุรกิจได้ แต่ในทางตรงกันข้าม การปฏิบัติตามสัญญาอย่างเคร่งครัด ไม่สามารถสร้างความพึงพอใจในความสัมพันธ์ระหว่างกันได้ ด้วยเหตุนี้ เจ้าของสิทธิ์แฟรนไชส์กับผู้ซื้อสิทธิ์แฟรนไชส์ ควรมุ่งพัฒนาความไว้วางใจและความพึงพอใจในความสัมพันธ์ในระดับที่สูงขึ้นโดยดำเนินธุรกิจด้วยความซื่อสัตย์ และควรหลีกเลี่ยงข้อตกลงทางธุรกิจที่ไม่ยุติธรรมซึ่งเกี่ยวข้องกับการปฏิบัติตามสัญญา ดังนั้น ผลของ

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การศึกษานี้สามารถสร้างความตระหนักรู้ถึงตัวบ่งชี้ในการพัฒนาความสามารถ  
ในการอยู่รอดของธุรกิจแฟรนไชส์ได้

**คำสำคัญ:** ความไว้วางใจ ความพึงพอใจในความสัมพันธ์ การปฏิบัติตามสัญญา  
ความสามารถในการอยู่รอดของธุรกิจแฟรนไชส์ พันธมิตรเชิงกลยุทธ์

## Introduction

In recent years, the franchise business is considered as one of the key drivers that could effectively boost Thailand's local economy. In accordance with Thai Franchise Center (2020) that it is currently over 584 franchise chains that have been running in Thai business, for instance, 140 food franchisors, 135 beverage & ice-cream franchisors, 104 education franchisors, 45 bakery franchisors, 41 services franchisors, retails franchisors, 34 business opportunity franchisors, 25 beauty franchisors, 16 printing franchisors, 7 real estate franchisors, and 2 book & video franchisors. Furthermore, as mentioned by the Department of Business Development (2019), the market value of the Thai franchise industry is over two hundred and eighty billion baht and yearly average growth at 20.3 percent. Besides, the franchise business is very attractive for SMEs in EEC, where is a well-known foreign investment destination and potential tourism destination. Furthermore, EEC is a "New Engine of Growth" for Thailand's competitiveness and the EEC Development Plan is integrated into the 20-year National Strategy (The Eastern Economic Corridor Office of Thailand, 2021).

Although franchise business is easily accessible for SMEs, it is also very high competition affecting the survivability of the business. In order to create a competitive advantage, a firm needs to form a strategic alliance to overcome its weakness of resources and to acquire a new skill, knowledge, and competency through inter-organizational learning (Lowensberg, 2010). Besides, in running a franchise business, the conflict between the franchisor and franchisee can cause the failure of a franchise business arrangement. As mentioned by Frazer, Weaven, Giddings, and Grace (2012), the

conflict in Relationship Satisfaction between partners can be caused by Trust and Commitment. Thus, it is very essential to be aware of the relationship marketing as a strategic alliance is long-term cooperation between the franchisor and the franchisee in engaging business activities for mutual economic gain.

Therefore, based on a strategic alliance approach by Lorange and Roos (1992), this study focuses on the knowledge-based theory of Grant (1991), the resource-based theory of Montgomery (1995), and the relationship marketing theory of Morgan and Hunt (1994) to explain the survivability of SMEs' franchise business in EEC.

### **Research Objectives**

1. To study the direct effect of Trust, mediating effect of Relationship Satisfaction (RS), and moderating effect of Commitment that have influenced the Franchise Business Survivability (FBS).
2. To indicate the key indicators in enhancing the survivability of SMEs' franchise business in EEC.

### **Literature Review**

In order to survive in this globalization, business needs to form a strategic alliance for accommodating the scarce resources and reducing the uncertainty of day-to-day business operations. In addition, Prihandono (2015) mentioned that developing or producing new products from scratch is a huge investment for a firm, whereas collaborating with other firms can reduce costs and time. In the meantime, the relationship between both parties needs to be maintained. In the previous study of Thorne and Wright (2005), it mentioned that commitment is very essential in securing a long-term

relationship and it needs both parties to preserve commitment. It is consistent with Elmuti and Kathawala (2001) that the business alliance is based on formal contracts to secure a long-term relationship and ensure its business survivability. Apparently, the strategic alliance is an appropriate alternative in creating a competitive advantage and enhancing business survivability. To better understand how these mentioned theories contribute to the strategic alliance, they will be illustrated.

Starting from a view of Knowledge-based theory in strategic alliance, it is one way of acquiring knowledge from business partners in order to create a competitive advantage. Principally, explicit knowledge deals with knowledge sharing and knowledge generation for replication and transferability to reproduce the products and services. It would imply into this study that trust between franchisor and franchisee might lead to any knowledge sharing and new skill of their business operations. As a result, it would generate their relationship satisfaction.

Next, a view of resource-based in strategic alliance, it holds an important role in forming a strategic alliance among firms to maintain their competitive advantages. Particularly, it addresses an economic interpretation in terms of scarcity. Based on their relationship satisfaction, they will support each other on the resource that can reinforce their vital business operations and maintain their competitive advantages. Thus, it results in franchise business survivability.

Finally, a view of relationship marketing in a strategic alliance, relationship marketing is a major concept in developing strategic alliances and maintaining long-term business relationships.

It would imply that business alliances should keep their commitment to maintain their relationship and enhance their franchise business survivability. Hence, managing the relationship between franchisor and franchisee will not only ensure business survivability, but the risk of conflict between partners will also endanger the long-term relationship (Altinay & Brookes, 2012).

However, in terms of the research gap, there is a lack of previous studies relating to the degree of commitment between franchisor and franchisee. Thus, this study would provide new knowledge in the area of the effect of different commitment degrees towards FBS.

In this study, it explores both direct and indirect relationships among the variables of Trust, RS, and commitment toward FBS. First, it focuses on a direct effect between Trust and FBS. According to Guilloux, Dubost, Kalika, and Gauzente (2008), they found that the positive relationship between franchisor and franchisee would generate trust among them and leads to a long-term relationship. Consequently, Trust can enhance FBS. Therefore:

H<sub>1</sub>: Trust has a direct positive relationship with FBS.

Second, an indirect effect of RS would mediate the relationship between Trust and FBS. This indirect effect is based on both parties conduct the business according to the agreement. It is consistent with Grace, Weaven, Frazer, and Giddings (2013) and Hnuchek and Trakulmaykee (2015) that RS is based on the perceived support provided by each party in the franchise arrangement and a specific asset need to conduct the business. Furthermore, as mentioned by Dant, Weaven, and Baker (2013), RS of both parties is essential and unavoidable, which leads to both mutual economic



gains. Consequently, both parties will conduct the business in terms of integrity and transparency as a result of a long-term relationship and survivability. Therefore:

H<sub>2</sub>: RS will mediate a positive relationship between Trust and FBS.

Lastly, a conditional effect of strong Commitment will be examined on the linkage between RS and FBS. The underlying assumption is a strong Commitment has been exercised by both parties in which is caused by RS. As a result, it would enhance FBS. According to the study of Wright and Grace (2011), it is found that a strong Commitment between franchisor and franchisee has an influence on their business survivability. However, there are numbers of franchise business operators reluctant to comply and commit to the agreement, they concentrate on short-term gain only. As a result, they would trade-off with a loss of future business opportunities. Thus, the author proposes the moderation model to predict this assumption.

H<sub>3</sub>: The strength of Commitment will moderate a positive relationship between RS and FBS.

Hereby, the overall conceptual model with the hypothesis is presented in Figure 1.

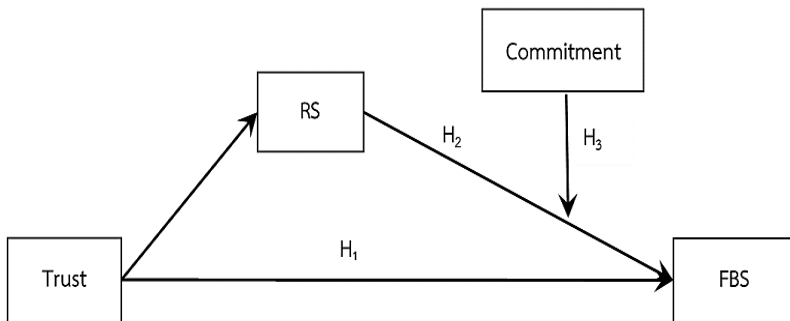


Figure 1. Overall Conceptual Model with Hypothesis

## Research Methodology

As this study is causal research to investigate the cause and effect relationship of Trust, RS, Commitment towards FBS. The unit of analysis is at the organizational level by acquiring the key information of SMEs' representatives, for example, the business's owner, top management, and middle management. Besides, it focuses on the 3 major provinces in the EEC of Thailand.

### 1. Sample and Procedures

There are 65,966 SMEs, where are located at Chonburi, Rayong, and Chachoengsao (Department of Business Development, 2019). Unfortunately, there is some limitation of the exact record of official SME's franchise business registration. Thus, to determine the sample size for an unknown population, the author utilized the formula of Krejcie and Morgan (1970) with a 95% confidence level and proportional stratified sampling. Thus, there are 400 target samples as stated in Table 1.

Table 1  
*Summary of Target Samples*

Province	SMEs' Population	Samples	Percent
Chonburi	48,404	292	73.38
Rayong	12,362	76	18.74
Chachoengsao	5,200	32	7.88
Total	65,966	400	100.00

In order to collect the data, the author utilized the judgment and convenience methods with an on-site questionnaire collection. In addition, a 6-point Likert scale questionnaire is designed for avoiding some hesitant opinions and unclear answers.

## 2. Measurement

Trust: As there are varieties of scale measurement in Trust, Rodriguez and Wilson (2002) particularly concentrates to study Trust in the franchise business circumstance. As such, the 4-item scale developed by them is used to measure this Trust by a 6-point Likert scale ranging from 1 (strongly disagree) to 6 (strongly agree).

RS: According to the study of Grace et al. (2013) that they focused on RS between franchisor and franchisee. Their scales are intended to measure the level of support provided by partners. Hence, the 4-item scale is used to measuring this RS by a 6-point Likert scale ranging from 1 (strongly disagree) to 6 (strongly agree).

Commitment: The degree of strong Commitment can be accessed by modifying the 4-item scale of Rodriguez and Wilson (2002), which ranges from 1 (strongly disagree) to 6 (strongly agree). To begin with moderation identification, a composite measure of

Commitment is formed by summing up all scales. Then, it utilizes the value of the mean, standard deviation, minimum, maximum, kurtosis, and skewness to define a moderator. As such, any SMEs with a score of Commitment higher than the mean is defined as “Strong Commitment”, and “Weak Commitment” is vice versa.

FBS: Initiatively, Stanworth, Purdy, English, and Willems (2001) focused on how the franchise business can be survived. Thus, the author modified the 4-item scale based on them measuring by a 6-point Likert scale.

Control variables: It is possible that SMEs' demographics may cause some potential effects. As such, gender and operating time are controlled.

### **3. Data Analysis**

As it is a quantitative study. On initial testing, the statistical software program is used to analyze demographic information, correlation, and reliability. In the meantime, the first-order confirmatory factor analysis by structural equation model is used to validate the three predictive variables and one dependent variable. Then, on hypothesis testing, the multiple regression analysis and Sobel test are used to investigate all three hypothesizes.

### **Research Results**

On initial testing, as this self-reported questionnaire is originally generated in English, it is modified and developed into Thai-questionnaire and verified by experts in the franchise business. It has a pilot test on the 40 samples in which the Cronbach's alpha

of all scales is higher than 0.7 indicating acceptable reliability. Besides, these samples are removed from the final survey. Then, the on-site questionnaire collection is performed and achieved total participants of 400 SMEs, which is accounted for 100.00% collection. The main characteristics of the respondents are 30.25% male and 69.75% female, who are average age between 26-35 years for 77.50%. They are 39.50% from the food/bakery business; 27.25% from convenience store business; and the rests are from others. As for the business operating time, 45.75% runs the business for 2-5 years and 45.50% runs the business for 6-10 years.

### 1. Scales Reliability and Validity

There are 4 outliers, which have been removed. Therefore, there are 396 samples in further analysis. Then, in order to examine the consistency of respondents, the results of Cronbach's alpha ranged from 0.77 to 0.82 indicating they are acceptable reliabilities (Trust = 0.77, RS = 0.80, Commitment = 0.78, FBS = 0.82).

In order to prevent the multicollinearity problem, construct validity is performed. To begin with convergent validity, the principal component extraction and varimax rotation technique used in factor analysis are conducted. The results showed the extraction value larger than 0.5 indicating all items can be left for further analysis. According to Fornell and Larcker (1981), convergent validity can be assessed by composite reliability (CR) and average variance extracted (AVE). The acceptable value of CR is 0.7 and above, whereas the acceptable value of AVE is 0.5 and above (Hair, 2010). In order to compute CR and AVE, the author performed

confirmatory factor analysis (CFA) to estimate the standardized regression weight from latent to its indicators. As a result, the criteria of convergent validity based on CR and AVE are met as below.

Table 2

*Results of Convergent Validity*

Factors (N = 396)	No. of items	CR	AVE
Trust	4	0.815	0.541
RS	4	0.825	0.545
Commitment	4	0.861	0.608
FBS	4	0.862	0.612

Following the discriminant validity, it is performed by using first-order confirmatory factor analysis utilizing the maximum likelihood method. All 4-item of each scale is loaded into each one-factor model. As the results, it can be seen from Table 3 that all indicators of model fit have reached a satisfactory level to measure the factors (Kline, 2016; Schumacker & Lomax, 2004).

Table 3

*Results of Model of Fit Indicators*

Factors	$\chi^2/df$	CFI	GFI	RMR	RMSEA	PCLOSE
Trust	2.955	0.995	0.996	0.016	0.070	0.237
RS	1.038	1.000	0.999	0.010	0.010	0.512
Commitment	0.134	1.000	1.000	0.003	0.000	0.822
FBS	1.765	0.998	0.998	0.012	0.044	0.379

2. Pearson Correlation Matrix Analysis

It can be seen from Table 4 that the correlation coefficient among all variables ranges from 0.13-0.52, which provides an acceptable level of correlation. Trust is significantly positive-correlated with RS, Commitment, and FBS. It would imply that these results provide proper support to the assumption of this study.

Table 4  
*Mean, S.D., and Correlation*

Variables	1	2	3	4
1. Trust	1	0.31**	0.52**	0.40**
2. RS	0.31**	1	0.32**	0.13*
3. Commitment	0.52**	0.32**	1	0.50**
4. FBS	0.40**	0.13*	0.50**	1
Mean	4.03	4.01	4.05	4.13
S.D.	0.82	0.79	0.78	0.84

Note: N = 396, \* $p < 0.05$ , \*\* $p < 0.01$  (2-tailed)

3. Analysis of Direct Effect

H<sub>1</sub> predicts a positive direct effect of Trust towards FBS. The multiple regression analysis is performed by entering the independent variable, control variables, and dependent variable. There are 2 categories of gender, which represent by 1 dummy variable, and male is a base category. It can be seen from Table 5 that Trust is a significantly positive direct relationship with FBS ( $b = 0.41, p < 0.001$ ). Therefore, H<sub>1</sub> is accepted.

Table 5

*Summary of Regression Results for Direct Effect*

Variables	FBS				
	Adjusted $R^2 = 0.16$ , $F = 25.96^{***}$				
	b	$\beta$	SE	t	VIF
Constant	2.36		0.22	10.73***	
Trust	0.41	0.40	0.05	8.50***	1.04
M v.s. F	0.00	0.00	0.09	0.00	1.02
Operating time	0.05	0.05	0.05	1.05	1.01

Note:  $N = 396$ ,  $*p < 0.05$ ,  $**p < 0.01$ , and  $***p < 0.001$  (2-tailed)

#### 4. Analysis of Mediating Effect

$H_2$  predicts that RS will mediate a positive relationship between Trust and FBS. As the results in Table 6 and Figure 2 indicate that 'path a' from Trust to RS is significant ( $b = 0.30$ ,  $p < 0.001$ ). The 'path b' from RS to FBS is also significant ( $b = 0.14$ ,  $p < 0.01$ ). Furthermore, the results of the Sobel test indicate that 'path ab' is a significant indirect effect ( $b = 2.41$ ,  $p < 0.01$ ). Hence,  $H_2$  is accepted.



Table 6  
*Summary of Regression Results for Mediating Effect*

Variables	RS			
	Adjusted R <sup>2</sup> = 0.09, F = 41.63**			
	b	β	SE	VIF
Constant	2.82***		0.19	
Trust	0.30***	0.31***	0.05	1.00

Variables	FRS			
	Adjusted R <sup>2</sup> = 0.16, F = 76.95**			
	b	β	SE	VIF
Constant	2.46		0.16	
Trust	0.41***	0.40***	0.05	1.00
RS	0.14**	0.13**	0.05	1.00

Note: N = 396, \*p < 0.05, \*\*p < 0.01, and \*\*\*p < 0.001 (2-tailed)

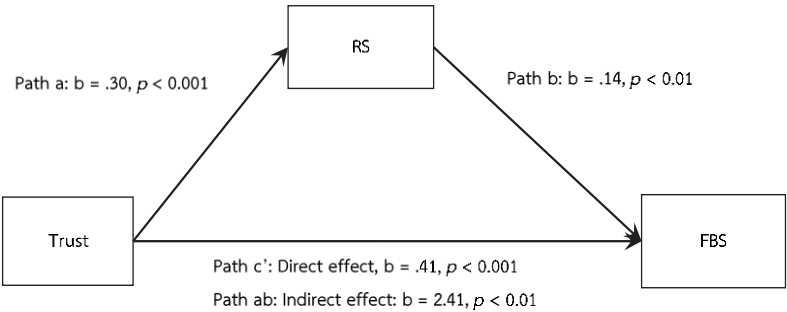


Figure 2. Mediation Model

## 5. Analysis of Moderating Effect

H<sub>3</sub> predicts that the strength of Commitment will moderate a positive relationship between RS and FBS. The results indicate that data distribution is normal as the skewness and kurtosis values close to zero, which is proper to define the strong or weak Commitment based on the mean. Thus, any SMEs with a score of Commitment higher than the mean is defined as 'Strong Commitment' and 'Weak Commitment' is vice versa. In summary, there is 47.50 percent to be defined as a 'Strong Commitment'. As it is a dichotomous moderator, it represents by a dummy variable. In addition, it can be seen from Table 7 and Figure 3 that 'path b<sub>1</sub>' from RS to FBS is nonsignificant ( $b = 0.07, p = 0.28$ ). The 'path b<sub>2</sub>' is from a Strong Commitment to FBS is significant ( $b = 0.78, p < 0.001$ ). The 'path b<sub>3</sub>' is an interaction term, which is also nonsignificant ( $b = 0.05, p = 0.60$ ). According to Preacher, Rucker, and Hayes (2007), a significant interaction term implies the existence of a moderating effect. Therefore, the mentioned results lead to the rejection of H<sub>3</sub>.

Table 7  
*Summary of Regression Results for Moderating Effect*

Variables	FBS			
	Adjusted R <sup>2</sup> = 0.16, F = 25.19***			
	b	β	SE	VIF
Constant	-.36***		.07	
RS (Zscore)	.07	.07	.07	2.07
Strong Commitment	.78***	.39***	.09	1.05
Interaction Effect (Zscore)	-.05	-.03	.09	2.03

Note: N = 396, \**p* < 0.05, \*\**p* < 0.01, and \*\*\**p* < 0.001 (2-tailed)

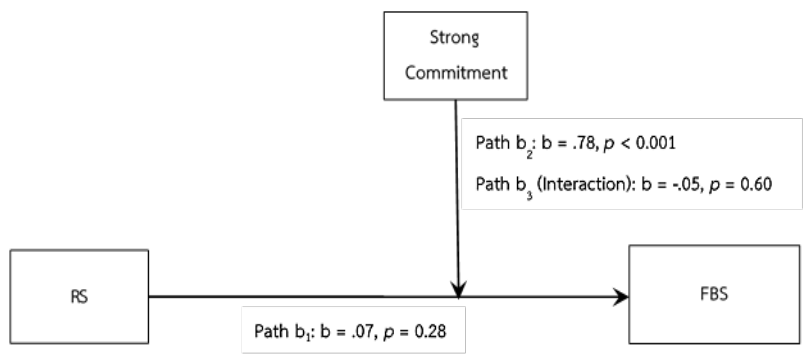


Figure 3. Moderation Model

Discussion

This study is based on the theoretical framework of a strategic alliance that has an influence on business survivability. As a result, H<sub>1</sub> is accepted to indicate that Trust has a direct effect on a positive relationship with FBS. It is consistent with the previous study that Trust can enhance both franchisor-franchisee to be better

performance (Fernandez-Monroy, Martin-Santana, & Galvan-Sanchez, 2018).

Next,  $H_2$  is also accepted to indicate that RS will mediate a positive relationship between Trust and FBS. It would imply that Trust between franchisor and franchisee would generate positive RS and enhance their business survivability. It is in line with the various franchise studies of Dant et al. (2013), and Jan and Park (2019) that Trust is transformed by adequate support into RS and it would finally yield mutual benefits and business sustainability. On the contrary, Trust can be transformed into conflict.

Lastly,  $H_3$  is rejected to indicate that the interaction of RS and Strong Commitment has no positive relationship with FBS. Nevertheless, there is some point of interest that Strong Commitment has a direct positive relationship with FBS, which corresponds with the previous studies (Altinay & Brookes, 2012; Wright & Grace, 2011). Later, it is found in the study of Dube, Mara, and Ntimane (2020) that franchise agreement provides guidelines on expected conduct and it sometimes becomes the source of conflict. As such, it is a rationale that there are varieties of factors affecting either success or failure in franchise business operation and it is also depending on the current situation.

Besides, it is also found that the adjusted  $R^2$  values of all hypothesis testing are pretty low. It would imply that some other factors have influences on FBS, for instance, the current working capital and the unforeseen outbreak of COVID-19.

## Conclusion

In fact, the franchise business is identified as one of the easiest routes for start-ups and entrepreneurs, but it is harder to be survived. Based on this study and theoretical implication, it can be concluded that Trust and RS are the key indicators to enhance the survivability of SMEs' franchise business in EEC. On the other hand, this study reveals that the interaction of RS and Strong Commitment has no positive relationship with FBS. It could indicate that a Strong Commitment is unable to moderate RS in contributing to the business success.

In terms of practical contribution, first, as franchise business success depends on both franchisor-franchisee satisfaction, they should develop and maintain a higher level of Trust and RS to achieve the strategic advantages and outcomes. To maintain and gain Trust in both parties, they should be honest and consistent as Trust is built from consistency. Second, as Commitment is directly related to the franchise agreement, both agreements should be based on mutual understanding, fairness, sincerity, reliability, and honesty. It would imply that the risk of conflict among partners will be avoided or minimized. However, after both parties have a consensus, they must exercise a high degree of Commitment. Then, they can enhance their FBS.

As this study reveals a preliminary investigation of SMEs' Franchise Business in the context of EEC, there are two main limitations. First, it is the restriction of time and cost. Data collection is conducted only on the 3-major provinces in EEC and on-site questionnaire collection is performed over a 3-month period from January to March in 2020 during the COVID-19 outbreak. It would

imply that the generalizability of this study result is potentially limited due to the longitudinal data collection is unable. Second, as these SMEs are running in different franchise businesses and contexts, their business management might be in different approaches contributing to overall business performance. As such, the future study is encouraged to focus on each type of franchise business and further relevant variables in enhancing FBS.

## Acknowledgment

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